

## Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 EB-07 OMB-01 TRSE-00 AGRE-00  
CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03 NSAE-00  
NSC-05 PA-02 PRS-01 SP-02 SS-15 USIA-15 COME-00  
SIL-01 LAB-04 ITC-01 STR-04 FEA-01 /085 W  
-----042056Z 125470 /41

R 040756Z MAY 77

FM AMCONSUL NAHA

TO SECSTATE WASHDC 2364

AMEMBASSY TOKYO

INFO CG USAGO MACHINATO

CG 313 AD/18TFW KADENA AFB

COMFLEACTS OKINAWA

CG MARCORB CAMP BUTLER

OAC CAMP BUTLER

COMUSJAPAN YOKOTA AFB

CINCPAC CAMP SMITH HAWAII

UNCLAS SECTION 1 OF 2 NAHA 197

CINCPAC ALSO FOR POLAD

STATE PASS FAS WASH DC

E.O. 11652: N/A

TAGS: BEXP, EGEN, JA

SUBJECT: DIET EXTENDS OKINAWA REVERSION SPECIAL MEASURES LAW

1. SUMMARY: ON MAY 2 NATIONAL DIET TOOK FINAL ACTION ON  
FUTURE DISPOSITION OF "SPECIAL MEASURES LAWS" (SML'S) WHICH

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GAVE SIGNIFICANT TAX AND TARIFF BENEFITS TO OKINAWANS TO EASE  
ECONOMIC TRAUMA OF REVERSION FROM 1972 TO 1977. NEW  
LEGISLATION EXTENDS MOST OF THESE BENEFITS INTACT OR  
REDUCES THEM GRADUALLY TO JAPAN LEVEL DURING NEXT FIVE YEARS.  
EXCEPT FOR CERTAIN PORK PRODUCTS, NEW LEGISLATION NOT EXPECTED  
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TO HAVE IMMEDIATE IMPACT ON CONSUMER PRICES HERE, BUT  
WILL ADD TO NORMAL INFLATIONARY PRESSURES WHICH ARE CURRENTLY  
LESS SEVERE HERE THAN IN REST OF JAPAN. US PERSONNEL ON OKINAWA  
WILL REMAIN VIRTUALLY UNAFFECTED BY SML'S. US EXPORTS  
WILL ALSO BE LARGELY UNAFFECTED, EXCEPT FOR CITRUS FRUITS,  
OKINAWAN CONSUMPTION OF WHICH PRESENTLY ACCOUNTS FOR 45 PERCENT  
OF TOTAL EXPORTS TO JAPAN. SML'S WILL FORCE LOCAL INDUSTRIES

TO BECOM COMPETITIVE WITH MAINLAND FIRMS IN FIVE YEARS. IN SUM, GOJ HAS DECIDED THAT OKINAWA, STILL ONE OF POOREST PREFECTURES IN NATION WITH PER CAPITA INCOME AT 70 PERCENT OF NATIONAL AVERAGE, NNEDS ANOTHER FIVE YEARS, FOR TOTAL OF TEN YEARS AFTER REVERSION, TO BECOME INTEGRATED INTO NATIONAL ECONOMY. END SUMMARY.

2. NEW LESIGLATION ENACTED ON MAY 2 IS ALMOST ENTIRELY ALONG

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LINES PROPOSED ON SUPRA-PARTISAN BASIS BY OKINAWA PREFECTURAL GOVERNMENT. IN BRIEF, THEY PROVIDE FOR: (1) OUTRIGHT TERMINATION OF TARIFF BENEFITS FOR IMPORTED PORK PRODUCTS AND TEA IN ORDER TO DEVELOP LOCAL INDUSTRIES; (2) STRAIGHT EXTENSION OF TAX BENEFITS FOR ANOTHER FIVE YEARS TO PROTECT SHOPS CATERING TO US SERVICEMEN AND TOURISTS; AND (3) GRADUAL REDUCTION OF BENEFITS TO JAPAN LEVEL ON MAJOR CONSUMER ITEMS, SUCH AS GASOLINE, CIRTRUS FRUITS, AND RICE, AND ON BENEFITS TO LOCAL MANUFACTURING FIRMS AND TOURIST INDUSTRIES. DETAILS FOLLOW.

3. OUTRIGHT TERMINATION OF BENEFITS:

A. HAM, BACON AND PORK LUNCHEON MEAT -- CURRENT 5 PERCENT TARIFF TO BE RAISED TO 25 PERCENT ON MAY 15. OKINAWA ALONE CONSUMES 65 PERCENT, 85 PERCENT, AND 90 PERCENT OF TOTAL JAPAN IMPORTS OF HAM, BACON AND LUNCHEON MEAT RESPECTIVELY, MAINLY FROM EC. BENEFITS TOTALED \$3.38 MILLION IN 1975.

B. OOLONG TEA -- TARIFF TO BE RAISED FROM ZERO TO 20-40 PERCENT TO AID LOCAL TEA GROWERS.

4. STRAIGHT EXTENSION FOR FIVE YEARS:

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A. COMMODITY TAX EXEMPTION FOR US SERVICEMEN -- ABOUT 100 DESIGNATED STORES WILL CONTINUE TO BE ABLE SELL

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SPORTSWEAR, SHOES, CAMERAS AND FILMS TO US MILITARY PERSONNEL WITHOUT CHARGING 20-25 PERCENT COMMODITY TAX.

B. TOURIST TAX REBATE -- TOURISTS, MAINLY FROM JAPAN HOMELAND, WILL CONTINUE TO BE ABLE PURCHASE WHISKEY, WRIST WATCHES, PERFUME AND OTHER FOREIGN LUXURY GOODS AND CLAIM 25-45 PERCENT TAX REBATES PRIOR TO DEPARTURE.

C. TARIFF EXEMPTION ON ALL PETROLEUM PRODUCTS USED BY ELECTRIC POWER COMPANY.

5. GRADUAL INCREASE TO JAPAN LEVEL IN FIVE YEARS:

A. GASOLINE AND ROAD TAX -- TAXES ON OKINAWA ARE ONLY 61.3 PERCENT OF JAPAN MAINLAND. BENEFITS AMOUNTED TO \$11.6 MILLION IN 1974.

B. TARIFF ON CITRUS FRUIT AND BANANAS -- ORANGES, GRAPEFRUIT

AND LEMONS ARE IMPORTED ENTIRELY FROM US, AND OKINAWA ALONE  
ACCOUNTS FOR 45 PERCENT OF TOTAL IMPORTS TO JAPAN. PRESENT  
5 PERCENT TARIFF WILL EVENTUALLY BE RAISED TO JAPAN-LEVEL OF  
20 PERCENT JUNE-NOV AND 40 PERCENT DEC-MAY. TARIFF BENEFIT  
EQUALED \$600,000 IN 1975. BANANAS MAINLY IMPORTED FROM TAIWAN  
AND PHILIPPINES.

C. TAX ON LOCALLY PRODUCED BEEAR AND AWAMORI -- TAXES

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PRESENTLY AT 70 PERCENT OF JAPAN-LEVEL.

D. SUGAR CONSUMPTION TAX ON LOCALLY REFINED SUGAR.

PRESENTLY TAX EXEMPT. EVENTUAL TAX WILL AMOUNT TO 16 YEN PER  
KG.

E. TAX ON LIQUOR SERVED IN BARS AND RESTAURANTS --

PRESENTLY AT 60 PERCENT OF JAPAN LEVEL.

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F. TARIFF ON INGREDIENTS USED BY FOOD PROCESSING INDUSTRIES.

TARIFF ON BEEF AND PORK OFFAL, BUTTER, SKIMMED MILK, BEERMALT,  
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UNCLAS NAHA SECTION 02 OF 02 NAHA 0197

CINCPAC ALSO FOR POLAD  
STATE PASS FAS WASH DC  
SUBJECT: DIET EXTENDS OKINAWA REVERSION SPECIAL MEASURES LAW  
VEGETABLE OIL, ETC., WILL BE RAISED FROM PRESENT 0-5 PERCENT TO  
10-35 PERCENT.  
G. TAX ON LOCAL MANUFACTURES -- TAX ON LOCALLY PRODUCED  
FURNITURE AND PLEASURE CRAFT, PRESENTLY TAX EXEMPT, WILL BE

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RAISED TO 20 PERCENT.

H. CORPORATE TAX ON OKI ELECTIC POWER COMPANY.  
I. TAX EXEMPTION ON NEW CAPITAL EQUIPMENT OF SMALL INDUS-  
TRIES -- PRESENT 50 PERCENT TAX EXEMPTION WILL BE REDUCED  
GRADUALLY TO ZERO.  
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J. SCHOOL LUNCH SUBSIDY -- PRESENT 80 PERCENT SUBSIDY WILL  
BE REDUCED GRADUALLY TO 40 PERCENT, HIGHEST RATE FOR DEPRESSED  
AREAS IN MAINLAND JAPAN.  
6. GRADUAL INCREASE TO JAPAN LEVEL IN EIGHT YEARS -- APPLICABLE  
ONLY TO RICE, WHICH SET AT 53 PERCENT OF MAINLAND PRICES DURING  
PAST FIVE YEARS.  
7. GENERAL IMPACT -- EXCEPT ON FOUR ITEMS WHICH WILL BE TAKEN  
OFF THE SPECIAL TARIFF LIST, NEW SPECIAL MEASURES LAWS (SML'S)  
ARE NOT EXPECTED TO HAVE IMMEDIATE IMPACT ON MAY 15, 1977. ON  
NEARLY ALL ITEMS, GOJ PLANS TO HOLD OFF TARIFF AND TAX INCREASES  
FOR ANOTHER ONE OR TWO YEARS. ON HAM, BACON, PORK LUNCHEON  
MEAT AND TEA, PRICES MAY INCREASE IMMEDIATELY BY AS MUCH AS 30  
PERCENT, ACCORDING TO SOME OBSERVERS, BUT GOVERNMENT PLANNERS  
HOPE TO HAVE PRICES LEVEL OFF AT ABOUT 10 PERCENT ABOVE  
CURRENT LEVELS THROUGH VARIOUS STEPS, SUCH AS GREATLY INCREASING

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IMPORT QUOTAS. OVER NEXT FIVE-YEAR PERIOD, NEW SML'S WILL,  
OF COURSE, ADD TO CURRENT INFLATIONARY PRESSURES, WHICH HOWEVER  
ARE CURRENTLY LESS SEVERE THAN IN MAINLAND JAPAN. FOR EXAMPLE,  
DURING YEAR ENDING MARCH 1977, CPI FOR OKINAWA REGISTERED  
LOWEST INCREASE IN NATION, I.E. 7 PERCENT FOR OKINAWA  
VERSUS 9.4 PERCENT FOR NATION.  
8. IMPACT ON US MILITARY PERSONNEL ON OKINAWA -- SML'S WILL  
HAVE VERY LIMITED IMPACT, IMMEDIATE OR OVER FIVE-YEAR PERIOD,

ON COST OF LIVING OF US PERSONNEL. BENEFITS UNDER SML'S, FOR EXAMPLE, APPLY TO TOURIST TRADE ITEMS, SUCH AS IMPORTED LIQUOR, WATCHES AND PERFUMES, OR TO CONSUMER ITEMS, SUCH AS RICE AND PROCESSED FOODS, WHICH ARE NORMALLY PURCHASED BY US PERSONNEL FROM PX'S AND COMMISSARIES AND NOT ON LOCAL ECONOMY. STORES AUTHORIZED TO SELL SELECT ITEMS TO US PERSONNEL WITHOUT CHARGING 20-25 PERCENT COMMODITY TAXES WILL CONTINUE TO HAVE THIS PRIVILEGE FOR ANOTHER FIVE YEARS. TAXI FARES AND RESTAURANT FOOD PRICES WILL RISE IN COMING YEARS, BUT DUE UNCLASSIFIED

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MAINLY TO GENERAL INFLATIONARY PRESSURES AND NOT CHANGES IN SML'S.

9. IMPACT ON US EXPORTS -- US EXPORTS TO OKINAWA, WHICH HAVE

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BEEN RUNNING AT ABOUT \$45 MILLION PER ANNUM, WILL REMAIN LARGELY UNAFFECTED, EXCEPT FOR CITRUS FRUITS IMPORTS (\$5.4 MILLION).

10. IMPACT ON LOCAL MANUFACTURING INDUSTRIES -- SML'S ARE NOT DESIGNED TO CREATE NEW JOBS IN LOCAL MANUFACTURING INDUSTRIES (WHICH MAKE UP 8 PERCENT OF GROSS PREFECTURAL PRODUCT) NOT INDUCE THEM TO EXPAND. LAWS MERELY PERMIT THESE INDUSTRIES, WHICH ARE ALL INFANT BY JAPANESE STANDARDS, TO CONTINUE TO OPERATE THROUGH ADVANTAGES NOT AVAILABLE TO MAINLAND JAPANESE FIRMS. QUANTITIES OF RAW MATERIALS AND CAPITAL GOODS THEY COULD IMPORT AT SPECIAL RATES WERE LIMITED TO PRODUCTION FOR OKINAWAN MARKET ALONE, AND FIRMS WERE BANNED FROM SHIPPING THEIR PRODUCTS ABROAD OR TO JAPANESE MAINLAND. SAVINGS TO THESE FIRMS IN TAXES ALONE (EXCLUDING TARIFFS) AMOUNTED TO \$60.6 MILLION IN THREE YEARS FROM JFY 1972 TO JFY 1974. UNDER NEW SML'S, THESE FIRMS ARE NOW UNDER NOTICE TO BECOME COMPETITIVE IN FIVE YEARS WITH MAINLAND JAPANESE FIRMS ENTERING THE OKINAWAN MARKET.

KNOWLES

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## Message Attributes

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